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Alison

Am under the counter copy for your own use!

(26)

GRO-C

Mr France

Redevelopment of BPL, Elstree
MS(H) meeting with CBLA on 21.1.85

1. The attached briefing has been prepared after discussion with John James, Finance Division. We are agreed that MS(H) should adopt a very tough line with CBLA, and suggest a total sum of £35.35m up to 1985-86 is all that be conceded. The CBLA should be sent away to find their own salvation; if they find they cannot make the project work without further funding then they will have to return with a much better case.

2. The CBLA's response to our 'dialogue' arrived this afternoon; the attached note refers to even more expansionist pipe-dreams from CBLA on R & D. I have not put it to MS(H) since it would confuse the issues, and CBLA could well cry 'foul' if we raise this at Ministerial level before officials have discussed it.

GRO-C

Alun J Williams
HS1A
Rm GRO- X3574 Han Hse

18 January 1985

c.c. Mr Doran
Dr Harris
Mr Bolton
Mrs Banks
Mr Cashman
Mr M A Harris

1. Mr France

2. Ms Bateman

Redevelopment of BPL, Elstree
MS(H) Meeting with CBLA on 21.1.85

I attach briefing for MS(H)'s consideration.

GRO-C

Alun J Williams
HS1A
Rm GRO-C 3574 Han Hse

18/1/85

c.c. Mr Joyce
Mr Doran
Dr Harris
Mr Bolton
Mrs Banks
Mr Cashman
Mr M A Harris

BRIEFING FOR MS(H) MEETING WITH CBLA ON 21.1.85
ESCALATION IN COST OF REDEVELOPMENT OF BLOOD PRODUCTS LABORATORY, ELSTREE

Purpose of meeting

1. MS(H) wishes to call CBLA to account for their failure to control the escalation in costs of the BPL redevelopment, and to discuss their application for increased funding of £35.45M plus an extra £3.35M for additional buildings.

Persons Present

2. For CBLA: Mr Arthur Jerwood, deputy chairman of CBLA
Mr Will Armour, Secretary and Chief Financial Officer of CBLA

(The CBLA Chairman, Mr David Smart, is convalescing from a hip replacement operation.)

Officials: Mr C W France
Mrs G T Banks

[Mr Jerwood is Chairman of Merck, Sharp and Dohme Holdings, and is active in the Association of British Pharmaceutical Industry. - See separate note on side issues.]

Background

3. The background to CBLA's application for increased funding is given in Mr Williams submission of 21.9.84. Following MS(H)'s minute of 25.9.84 to Sir Kenneth Stowe, Mr France met Mr Jerwood on 23.11.84 to establish CBLA's explanation for the escalation of the project well beyond authorised limits, and to explore, without prejudice to MS(H)'s decision, whether the essential parts of the redevelopment (including the extra building sought) could not be contained within a lesser sum than £38.8M; discussion was summarised in Mr France's letter of 30.11.84 (Flag A), and accepted by Mr Jerwood (letter of 10.12.84 - Flag B).

Project Control

4. The original approved sum was £21.1M (Nov 82 prices), equivalent to £25.5M at June 84 prices; CBLA is now seeking £35.35M plus an extra £3.45M for extra warehousing and quality control buildings said to be essential for the project. The Department is concerned at CBLA's failure to control the project, and its failure to seek approval for increases before starting to implement the changes.

5. It is likely that Mr Jerwood will defend the Authority on the grounds that:

(i) their overriding objective has been to bring the project in on time, to enable self-sufficiency in blood and blood products for England and Wales at the earliest possible time (late 1986), and that objective is on course;

(ii) the Department should have expected a final cost sum well in excess of the original cost limit. By definition, in a 'fast-track' development, costs at the outset are virtually incapable of being accurately set, and the CBLA behaved in the same way as any large pharmaceutical company would do; the figure of £21.1M was patently unrealistic given its unsound basis and the subsequent extensions in project objectives set by the Department.

(iii) the Department should have signalled its interest by closer involvement as the scheme progressed.

6. On (i), the twin objective of keeping within approved cost limits is of course equally imperative. On (ii), whether DHSS was naive or not, it was the Authority's duty to draw attention to escalating costs. In practice, they appear to have abdicated their responsibility to their project team, and to have exercised little or no control over them. On (iii), we admit Departmental shortcomings but they do not excuse the Authority from discharging its own obligations.

Future funding

7. The discussions at official level have not been fruitful; the CBLA has maintained its view that it needs £38.8M, and its only concession is to offer to delay some of the extra building sought - they seek £1.2M in 85/86 for warehousing and £1.3M in 86/87 and £1.0M in 87/88 for quality control laboratories. The CBLA argue that it needs on-site warehousing immediately to ensure adequate product quality control. The CBLA concede that it can create interim quality control (Q.C) facilities, within existing buildings/portakabins etc, but maintain that new Q.C. laboratories are needed if they are to get FDA (Federal Drugs Administation) approval for their products. The CBLA also argue that such FDA approval is needed to maximise its income from sales abroad.

8. The CBLA has thus not made any real attempt to produce a compromise solution within the overall sum of around £35M, which was clearly indicated by Mr France to Mr Jerwood as being the most likely total sum available. In discussions on 1985/86 allocations from Central Reserves, Ministers earmarked funds which would have allowed completion of the main project at £35.35M if this was subsequently approved, but made no provision for the extra £3.45M sought by CBLA.

Recommendation

9. It is recommended that MS(H) tell CBLA that the Department's funds are limited to a total of £35.35M up to the end of 1985/86, and that the CBLA is expected to adopt whatever economies/ contingencies are necessary to make the redevelopment work. Their efforts to date have been inadequate, and in future the Department will have to monitor the activities of CBLA more closely than it would otherwise wish to do. If the CBLA persist that the lack of these facilities will prejudice operation of the development, they should be told to submit a detailed case.